

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance

For the Two Fiscal Years Ended June 30, 1996

Office of the Commissioner of Political Practices

**We issued an unqualified opinion on the financial schedules of the
Commissioner's office and our report contains no recommendations.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Commissioner of Political Practices for the two fiscal years ended June 30, 1996. This audit resulted in an unqualified report on the Commissioner's financial schedules and no recommendations.

We thank the Commissioner and his staff for their assistance and cooperation.

Sincerely,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance

For the Two Fiscal Years Ended June 30, 1996

Office of the Commissioner of Political Practices

Audit staff involved in this audit was Wayne Kedish.

Table of Contents

	Appointed and Administrative Officials	ii
	Report Summary	iii
Introduction	Introduction	1
	Background	1
Prior Audit Recommendations	Prior Audit Recommendations	3
Independent Auditor's Report & Agency Financial Schedules	Independent Auditor's Report	A-3
	Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1996	A-5
	Schedule of Total Revenues By Fund By Class for the Two Fiscal Years Ended June 30, 1996	A-6
	Schedule of Total Expenditures & Other Reductions By Object & Program for the Fiscal Year Ended June 30, 1996	A-7
	Schedule of Total Expenditures & Other Reductions By Object & Program for the Fiscal Year Ended June 30, 1995	A-8
	Notes to the Financial Statements	A-9
Agency Response	Office of the Commissioner of Political Practice	B-3

Appointed and Administrative Officials

**Commissioner of Political
Practices**

Ed Argenbright, Commissioner

Term Expires
December 31, 1998

Report Summary

Commissioner of Political Practices

This financial-compliance audit report contains the results of the audit of the Commissioner of Political Practices for the two fiscal years ended June 30, 1996.

There were two prior audit recommendations directed to the Commissioner's office. The Commissioner fully implemented both of the recommendations. This audit resulted in no recommendations.

We issued an unqualified opinion on financial schedules contained in the report beginning on page A-5. This means the reader may rely upon the presented financial information and the supporting data recorded on the Statewide Budgeting and Accounting System.

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Political Practices (office) for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Make recommendations for improvement in the management and internal controls of the office.
3. Determine the status of prior audit recommendations.
4. Determine if the office's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1996.

Background

The office was created by the 1975 Legislature. The governor appoints the commissioner to a six-year term, subject to confirmation by the Senate. A four-member selection committee comprised of the Speaker of the House, the President of the Senate, and the minority floor leaders of both houses of the legislature submit a list of two to five names of individuals to the governor for consideration. The commissioner can only serve one term.

The primary duties of the commissioner include:

1. Monitoring disclosures of financial contributions to and expenditures of Montana political committees and candidates.
2. Registering lobbyists and monitoring lobbying activities and financial disclosure.
3. Investigating all alleged violations of the state's campaign financing and practice laws and lobbying disclosure laws.
4. Administration of Montana's ethics laws for legislators, public employees, and public officials.

The 1995 Legislature expanded the authorized FTE from 3.25 to 7.25, adding 2 FTE to implement amendments to Montana's Campaign Finance Laws, and 2 FTE to administer changes to Montana's ethics laws.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the Office of the Commissioner of Political Practices for the two fiscal years ended June 30, 1994. The report contained two recommendations concerning compliance with appropriation provisions, and issuing notices of noncompliance. The office implemented both recommendations.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of the Commissioner of Political Practices (office) for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-11. The information contained in these financial schedules is the responsibility of the office. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the office for the two years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

August 16, 1996

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1994	\$ <u>0</u>	\$ <u>7,201</u>
ADDITIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Revenue & Transfers In	34,109	
Support From State of Montana	129,310	
<u>Fiscal Year 1995-96</u>		
Budgeted Revenue & Transfers In	3,948	
Support From State of Montana	<u>267,473</u>	
Total Additions	<u>434,840</u>	
REDUCTIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Expenditures & Transfers Out	163,419	
Nonbudgeted Expenditures & Transfers Out		7,201
<u>Fiscal Year 1995-96</u>		
Budgeted Expenditures & Transfers Out	276,756	
Prior Year Transfer Out Adjustments	<u>(5,335)</u>	
Total Reductions	<u>434,840</u>	<u>7,201</u>
FUND BALANCE: June 30, 1996	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES, BY FUND BY CLASS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	<u>General Fund</u>	<u>Total</u>
<u>Fiscal Year 1994-95</u>		
TOTAL REVENUES BY CLASS		
Licenses & Permits	\$ 31,800	\$ 31,800
Charges for Services	<u>2,309</u>	<u>2,309</u>
Total Revenues	<u>34,109</u>	<u>34,109</u>
Actual Budgeted Revenues	34,109	34,109
Estimated Revenues	<u>32,500</u>	<u>32,500</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ 1,609</u>	<u>\$ 1,609</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS		
Licenses & Permits	\$ 1,800	\$ 1,800
Charges for Services	<u>(191)</u>	<u>(191)</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ 1,609</u>	<u>\$ 1,609</u>
<u>Fiscal Year 1995-96</u>		
TOTAL REVENUES BY CLASS		
Licenses & Permits	\$ 700	\$ 700
Charges for Services	2,498	2,498
Fines & Forfeits	<u>750</u>	<u>750</u>
Total Revenues	<u>3,948</u>	<u>3,948</u>
Actual Budgeted Revenues	3,948	3,948
Estimated Revenues	<u>3,750</u>	<u>3,750</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ 198</u>	<u>\$ 198</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS		
Licenses & Permits	\$ 450	\$ 450
Charges for Services	(2)	(2)
Fines & Forfeits	<u>(250)</u>	<u>(250)</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ 198</u>	<u>\$ 198</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & OTHER REDUCTIONS BY OBJECT & PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	<u>Administration</u>	<u>Total</u>
PROGRAM EXPENDITURES BY OBJECT		
Personal Services		
Salaries	\$ 130,599	\$ 130,599
Hourly Wages	867	867
Employee Benefits	34,285	34,285
Total	<u>165,751</u>	<u>165,751</u>
Operating Expenses		
Services	58,227	58,227
Supplies & Materials	13,915	13,915
Communications	20,856	20,856
Travel	925	925
Rent	7,762	7,762
Repair & Maintenance	2,036	2,036
Other Expenses	2,988	2,988
Total	<u>106,709</u>	<u>106,709</u>
Equipment and Intangible Assets		
Equipment	4,296	4,296
Total	<u>4,296</u>	<u>4,296</u>
Transfers		
Accounting Entity Transfer	(5,335)	(5,335)
Total	<u>(5,335)</u>	<u>(5,335)</u>
Total Program Expenditures	<u>\$ 271,421</u>	<u>\$ 271,421</u>
PROGRAM EXPENDITURES BY FUND		
General Fund	\$ 271,421	\$ 271,421
Total Program Expenditures	<u>271,421</u>	<u>271,421</u>
Less: Nonbudgeted Expenditures	(5,335)	(5,335)
Actual Budgeted Expenditures	276,756	276,756
Budget Authority	363,566	363,566
Unspent Budget Authority	<u>\$ 86,810</u>	<u>\$ 86,810</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 86,810	\$ 86,810
Unspent Budget Authority	<u>\$ 86,810</u>	<u>\$ 86,810</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & OTHER REDUCTIONS BY OBJECT & PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>Administration</u>	<u>Total</u>
PROGRAM EXPENDITURES BY OBJECT		
Personal Services		
Salaries	\$ 81,984	\$ 81,984
Employee Benefits	21,284	21,284
Total	<u>103,268</u>	<u>103,268</u>
Operating Expenses		
Services	36,980	36,980
Supplies & Materials	6,315	6,315
Communications	6,724	6,724
Travel	138	138
Rent	3,663	3,663
Repair & Maintenance	478	478
Other Expenses	379	379
Total	<u>54,677</u>	<u>54,677</u>
Equipment and Intangible Assets		
Equipment	4,723	4,723
Total	<u>4,723</u>	<u>4,723</u>
Transfers		
Accounting Entity Transfers	7,952	7,952
Total	<u>7,952</u>	<u>7,952</u>
Total Program Expenditures	<u>\$ 170,620</u>	<u>\$ 170,620</u>
PROGRAM EXPENDITURES BY FUND		
General Fund	\$ 163,419	\$ 163,419
Special Revenue Fund	7,201	7,201
Total Program Expenditures	<u>170,620</u>	<u>170,620</u>
Less: Nonbudgeted Expenditures	<u>7,201</u>	<u>7,201</u>
Actual Budgeted Expenditures	163,419	163,419
Budget Authority	166,730	166,730
Unspent Budget Authority	<u>\$ 3,311</u>	<u>\$ 3,311</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 3,311	\$ 3,311
Unspent Budget Authority	<u>\$ 3,311</u>	<u>\$ 3,311</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Office of the Commissioner of Political Practices uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable.

Expenditures and expenses may include entire budgeted service contracts even though the office received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the office to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule presentation is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996 the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balance and Property Held in Trust. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The office uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The Commissioner closed its Special Revenue Fund in fiscal year 1994-95.

2. Annual and Sick Leave

Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The office absorbs expenditures for termination pay in its annual operational costs. At June 30, 1996, the office had a liability of \$17,893.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contribution to PERS was \$5,496 in fiscal year 1994-95 and \$8,815 in fiscal year 1995-96.

4. General Fund Balance

The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Nonbudgeted Expenditures

The Office of the Commissioner of Political Practices received \$20,500 in a settlement agreement of a civil lawsuit in fiscal years 1993-94. The terms of the settlement specified the money be used to improve the operating efficiency of the Commissioner's Office and enhance public awareness of laws regulating campaign practices. These funds are deposited in the Special Revenue Fund and were authorized for expenditure under section 17-7-114, MCA, without a specific appropriation. Since a budget amendment was not required to expend the settlement money, the \$7,201 in Special Revenue Fund expenditures for fiscal year 1994-95 are recorded as nonbudgeted expenditures. These expenditures zeroed out the account fund balance and the fund was closed.

Notes to the Financial Schedules

6. Contingency

Common Cause v. Argenbright is a lawsuit in Montana's First Judicial District. It involves a claim by Common Cause that Montana's administrative rules do not adequately define and proscribe certain lobbying practices. Common Cause is seeking declaratory and mandamus relief plus attorney fees and costs. The district court granted the Commissioner's motion to dismiss, but was reversed by the Montana Supreme Court and the case remanded back to the district court. The parties are engaged in settlement discussions. The maximum financial liability to the Commissioner's office at this time is the plaintiff's claim for \$21,000 in attorney fees. There is a reasonable likelihood attorney fees will be awarded or negotiated in an amount between \$10,000 and \$15,000.

Agency Response

COMMISSIONER OF
POLITICAL PRACTICES



STATE OF MONTANA

ED ARGENBRIGHT, Ed.D.
COMMISSIONER
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September 27, 1996

SEP 27 1996

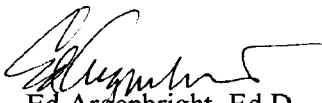
Scott A. Seacat
Legislative Auditor
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

This letter is in response to your recent financial-compliance audit report for this office for the two fiscal years ended June 30, 1996. The audit resulted in an unqualified report with no recommendations.

I am pleased with these results and would like to commend Wayne Kedish for the manner in which he conducted the audit.

Sincerely,


Ed Argenbright, Ed.D.
Commissioner